



# SAVINGS NOW NEWSLETTER

*The easiest way to save more in less time!*

## 3 Expense Cutting Trends That Are Shaping The Future Of Supply Chain Expense Management

A supply chain manager recently told us that he is only saving pennies on the dollar on his new and renewal GPO contracts, along with seeing many price increases, thus, giving credence to our observation that price savings are slowly but surely disappearing. So, where do you go to continue your healthcare organization's double-digit savings that you have experienced for many years? The answer is to look to these expense cutting trends that are shaping the future of supply chain management:

### 1. Supply Utilization Management:

More and more supply chain professionals are planning to attack their utilization misalignments (i.e., wasteful and inefficient consumption, misuse, misapplication, and value mismatches in their supply streams) this fiscal year. This is because there are 10 to 20 times more savings below the waterline (iceberg analogy), than there are above the waterline at most healthcare organizations.

### 2. Purchased Service Contract Administration:

We see more healthcare organizations establishing centralizing contract administration processes than ever before. The reason for this trend is that you save at least 11% to 18% in new contract savings by reining in your purchased service contract costs.

### 3. Value Analysis Program Reinvention:

Most value analysis programs have been focusing their efforts on vetting their hospital, system, or IDN's new product, service, and technology requests. These are generally costing their healthcare organization money while ignoring hundreds of thousands or even



millions of dollars in new savings – beyond price and standardization - annually. Now that supply chain leadership is becoming aware of this phenomenon, they are reinventing their value analysis programs to also be savings machines.

You might not be aware of it, but cost-cutting techniques fade or are institutionalized over time, hence reducing your savings yields. What was hot today (i.e., group buys, group purchasing, or commodity auctions) is cool tomorrow. That's why you always need to be looking for new cost cutting strategies, tactics, and techniques to keep your savings momentum humming. Otherwise, you will hit the wall on your supply chain expense savings before you know it. We hope these three cost-cutting trends can be added to your own supply chain expense toolbox to shape your supply chain expense management future.



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Advanced Strategies and Best Practices  
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# How A Supply Utilization Strategy Can Support Your Cost Management Objectives

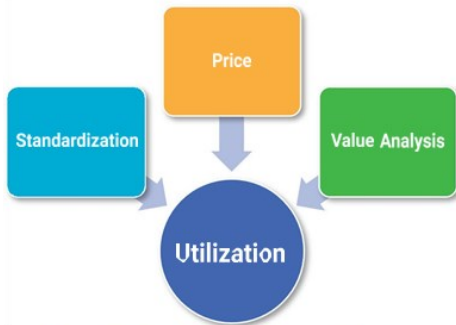


Figure 1: Supply Chain Expense Reduction Relational Strategies Model™

I can't think of any healthcare organization that isn't turning over every stone to find new supply chain expense savings opportunities. Yet, these same hospitals, systems, and IDNs often overlook a supply utilization strategy to wring the towel dry on their supply expenses. With this said, it has been our experience that there are only four ways to save on your supply chain expenses, as shown in our Supply Chain Expense Reduction Relational Strategies Model™ (Figure 1). With few exceptions, healthcare organizations' price, standardization, and value analysis strategies are very mature and aren't yielding double-digit savings as in prior years.

A supply utilization strategy is so important since it can yield your healthcare organization an additional 7% to 15% savings on supplies and 11% to 18% on purchased services. This isn't theory, but a fact that is backed up by hundreds of case studies, years of extensive research, and client testimonials.

## Broaden Your Cost Management Objectives to Save More

Specifically, it is our estimate that you can still save 2% annually overall on your price savings, a few percentage points on standardization, and 3% to 5% on value analysis this calendar year. But if you broaden your cost management objectives to include supply utilization management, we estimate you could save an aggregate supply chain expense reduction of 12% on your healthcare organization's supply expense budget within 12 to 18 months. This would be a major achievement for your hospital, system, or IDN, considering that inflation is raising its ugly head again.

## There Is Nowhere Else to Go for Savings

We have observed how healthcare organizations save on their supply expenses for 34+ years and haven't seen a cost reduction strategy that doesn't fit into the categories of price, standardization, or value analysis tactics to save money.

Unfortunately, these sources of savings are drying up because your vendors have no more price concessions to give, standardization has been substantially completed at most hospitals, systems, and IDNs, and value analysis isn't employed as it was designed by Larry Miles, the father of value analysis. I call this a tipping point or the point at which a series of changes become significant enough to cause a larger, more important change. That change being a dramatic reduction in supply expense savings for healthcare organizations once they embrace a supply utilization strategy. In my opinion, there is nowhere else to go for supply expense savings.



## Reduce All Of Your Purchased Services Costs With A More Accurate "Activity-Based Costing" System



You could be leaving 11% to 18% or more in new non-labor savings on the table untouched. It's a little-known fact that most healthcare organizations either have overlooked their purchased service savings opportunities or have only nibbled around the edges of these savings. What our "Activity-Based Costing" Purchased Services Advantage System can do for you is to ensure that every dollar that can be saved in this category of purchases will be saved beyond price and standardization. To learn more or schedule a demo, visit [www.SVAHSolutions.com](http://www.SVAHSolutions.com).



## Message from the Trenches

### Do You Have A Defined or So-called Value Analysis Process?

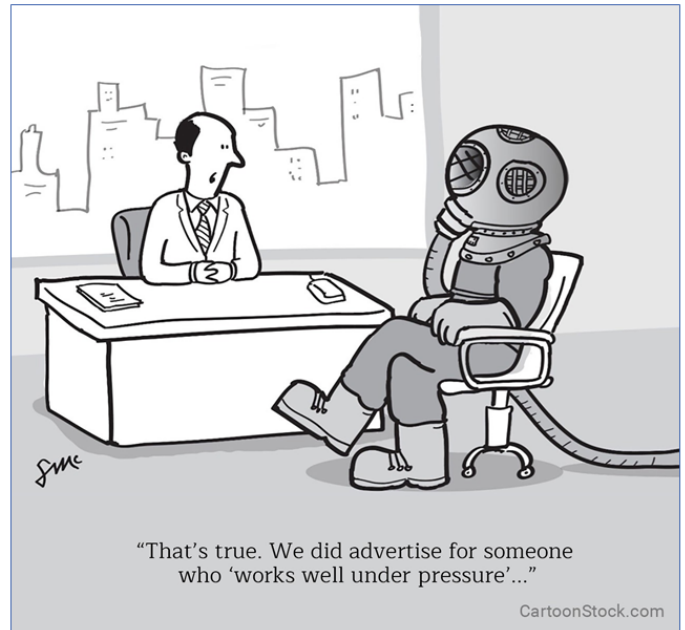
It has been our observation that nearly every hospital, system, and IDN has a value analysis team or committee in place to investigate, vet, or study current, new, and proposed products, services, and technologies. Yet too often these same healthcare organizations don't have a repeatable, trainable, or auditable VA process. Instead, they have a



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prescribed workflow that doesn't provide them with the evidence that they are truly saving money or improving their patients' safety, outcomes, and satisfaction. Only by having a defined value analysis process (a series of repeatable, trainable, and auditable steps) in order to functionally analyze the products, services, and technologies you are buying can you really say you have a defined VA process. It can make the difference between saving money or wasting it by going through the motions of meetings, task forces, or committees that never produce measurable results. To learn more about upping your value analysis game, go to [www.ValueAnalysisAcademy.com](http://www.ValueAnalysisAcademy.com).

## Time for a Break....



## 3 Tips About Value Analysis Software You Can't Afford To Miss

More and more, we are seeing healthcare organizations buying value analysis software with the goal of improving their new purchase request workflow. Usually, this is because managing their new purchase requests has overwhelmed their Excel spreadsheet folders. Yet, we believe there should be other considerations when selecting value analysis software, such as:

**1. Savings Validation:** We believe that a savings isn't a savings until it is validated. This is because our studies have shown that up to 26% to 46% of reported savings are actually lost. So, you might report that a new purchase request will save your healthcare organization 25% annually, but in reality, it is only saving 6%. Don't you owe it to your senior management team to report accurate savings? Or would you rather your CEO, CFO, or COO uncover the dirty little secret that much of your reported savings aren't real?

**2. Savings Analytics:** In our 34+ years of providing cost management software, training, and advisory service, we have never worked with a hospital, system, or IDN that didn't need to save money. Therefore, why wouldn't you want to know where your best price, utilization, and standardization opportunities reside? This can only become a reality with savings analytics. Thomas H. Davenport, author of *Competing on Analytics*, describes analytics as, "The extensive use of data, statistical and quantitative analysis, explanatory and predictive models, and fact-based management to drive decisions and actions."

**3. Savings Benchmarking:** The best way to become better than just good is to benchmark your healthcare organization against your peers'. This enables you to search for best practices that lead to improved performance. For instance, I was benchmarking the cost of forms (not price) for one of our clients, only to discover a savings gap of 80%. I thought this was an error until I uncovered that my benchmarking partner's health system had digitized most of their forms. This then provided me with a new forms best practice that I could recommend to my clients.

Value analysis is more than just vetting new purchase requests; it is a cost management technique to dramatically reduce your healthcare organization's supply chain expenses. If you believe, as we do, that savings validation, savings analytics, and savings benchmarking are must-have specs for your value analysis software requirements, you will be ahead of the game when your CFO unexpectedly asks you for your supply chain savings recommendations because of a budget shortfall.

P.S. If you would like more articles like this, please sign up for our **Healthcare Value Analysis and Utilization Management Magazine** at [valueanalysismag.com](http://valueanalysismag.com).



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## Book Review     **The Secret To Finding Your Passion**

Most people don't fall in love "at first sight" with their work. We've all heard the saying "follow your passion," but it can be devastating chasing passions that keep us excited to be at work. Believing your passion is an end-all, be-all thing can lead to anxiety, chronic job-hopping, and an unstable lifestyle.

So, how do people end up loving what they do? Why do organic farmers, venture capitalists, screen-writers, freelance computer programmers, and many other passionate professionals derive great satisfaction from their work? Cal Newport decided to ask them directly.

**In So Good They Can't Ignore You**, Newport explains why passion often comes after becoming excellent at something valuable, not before. That's why it's misleading when people say, "Do what you love and money will follow." Newport calls this the "passion mindset," a misguided notion that doesn't quite explain how to achieve passion.

The reason for this ambiguity is due to the success stories we hear. However, many companies like Apple Computers didn't come into being because of a passion mindset: There was also a series of lucky breaks. In truth, passion is actually a side effect of mastery.

Essentially, "What you do for a living is much less important than how you do it," Newport writes. "Most passionate people are not those who followed their passions but those who have been around long enough to become good at what they do and get better every day."

That's why it's so much more productive to adopt a "craftsman mindset" than a "passion mindset." Instead of wondering what the world has to offer, wonder what you have to offer the world. If you spend too much time wondering whether you've found your true calling, it can be immobilizing. Find what rare and valuable skills you can offer and become so good that people can't ignore you.

(Source: NewsletterPro.com)



